

Union Budget (2017-18)

No bad news is good news

The Union Budget for FY2017-2018 aims to stimulate the Indian economy through healthy allocation toward Housing, Agriculture and Rural sectors, besides infrastructure development - with primary focus on Railway, Roads and Waterways. At the same time, the Budget projects to limit the fiscal deficit at 3.2% of GDP. The net market borrowings at Rs3.48 trillion in FY2018 is lower than market expectations of around Rs4.2 trillion. Continued fiscal prudence and a comfortable liquidity situation leave scope for the Reserve Bank of India (RBI) to maintain its accommodative monetary stance. The reduction in tax liability for small-sized companies with a turnover under Rs50 crore, and the relief for individual tax payers with income between Rs2.5 and Rs5 lakh per annum are additional feel-good factors. Lastly, no bad news on the long-term capital gains tax (LTCG) in equities is good news for investors. However, the limits proposed on cash transactions could further squeeze the unorganised sector, which is already reeling under the adverse impact of demonetisation. The unorganised sector would also have to face challenges post the implementation of the Goods & Services Tax (GST), which is scheduled to be rolled out some time during FY2018. Overall, the Budget is positive for the Indian economy in general and equity markets in particular.

Some of the key takeaways are:

Healthy allocation for Housing, Rural & Agriculture sectors and infrastructure development

- The government has stepped up capital expenditure by 25.4% over the previous fiscal year. For the transportation sector, the Budget allocation stands at Rs2.41 trillion (includes Railway, Roads and Waterways). In addition, allocations have been made for Solar Power, Digital Infrastructure and other allied segments, resulting in a total infrastructure development allocation of Rs3.96 trillion for FY2018.
- Rural and Agriculture & Allied sector allocation is higher by 24% to Rs1.87 trillion.
- Affordable Housing has been given infrastructure industry status while interest subvention of 3% has been announced for borrowers of home loans up to Rs12 lakh. The holding

period for computing LTCG on immovable property has been reduced from three years to two years.

Financial sector: No negative surprises

- Phasing out of the Foreign Promotion & Investment Board (FIPB).
- Creation of an integrated spot and derivatives market for commodities.
- No change in LTCG for equities (though off-market buying post October 2004 could be disallowed benefits of LTCG as per the fine print).
- Listing of public enterprises under the Central Government.
- Target for small loans for marginal borrowers doubled to Rs2.44 trillion under the Pradhan Mantri Mudra Yojana.

Government finances: Deficit targets encouraging; lower-than-expected market borrowings leave scope for RBI to reduce policy rates

- The size of the Budget stands at Rs21.47 trillion, which includes revenue expenditure of Rs17.3 trillion. The Budget estimates a 12.2% increase in net revenue receipts on the back of a 15.7% upsurge in direct taxes, largely supported by expectations of a 24.9% jump in personal income tax collection. We believe that the assumption of healthy growth in personal income tax is based on better tax compliance and inflows from the Income Disclosure Scheme.
- Revenue deficit for FY2018 is pegged at 1.9% of GDP, which is well within the 2% target as per the Fiscal Responsibility and Budget Management (FRBM) Act. However, the government has pegged the fiscal deficit at 3.2% of GDP (higher than 3% as per the FRBM ACT) as an exception in order to stimulate the Indian economy.
- Net market borrowings for FY2018 are pegged at Rs3.48 trillion, which is lower than expectation and positive for the bond market. Also, the continued fiscal prudence and a comfortable liquidity condition would leave scope for the RBI to maintain its accommodative monetary stance.

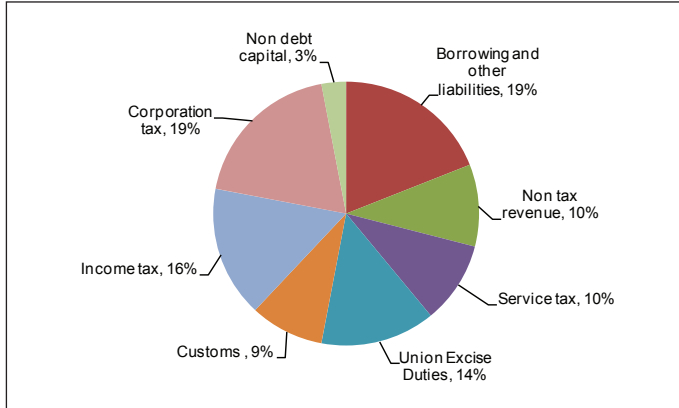
Key budget data

Particulars	FY14	FY15	FY16	FY17RE	FY18BE
Gross tax revenues	11,387.3	12,448.9	14,556.5	17,032.4	19,115.8
% change yoy	-7.9	-9.7	16.9	16.7	12.2
Net tax revenues	8,158.5	9,036.2	9,433.2	10,887.9	12,270.1
% change yoy	-7.7	-8.4	4.4	14.9	12.7
Non tax revenues	1,988.7	1,978.6	2,517.1	3,347.7	2,887.6
Total expenditure	15,594.5	16,636.7	17,907.8	20,144.1	21,467.4
% change yoy	-6.4	-5.6	7.6	12.8	6.6
Fiscal deficit	5,028.6	5,107.2	5,327.9	5,342.7	5,465.3
as % of GDP	4.4	4.1	3.9	3.5	3.2
Revenue deficit	3,570.5	3,655.2	3,427.4	3,110.0	3,211.6
as % of GDP	3.2	2.9	2.5	2.1	1.9
Primary deficit	1,286.0	1,082.8	911.3	512.0	234.5
as % of GDP	1.1	0.9	0.7	0.3	0.1

(Rs '00 cr)

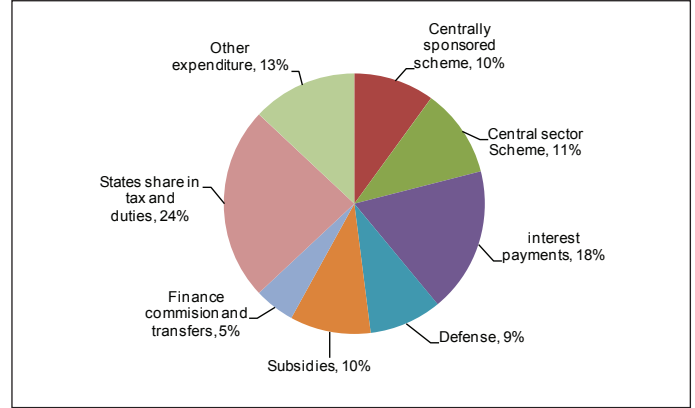
Source: India Budget, Sharekhan Research

Budget receipts



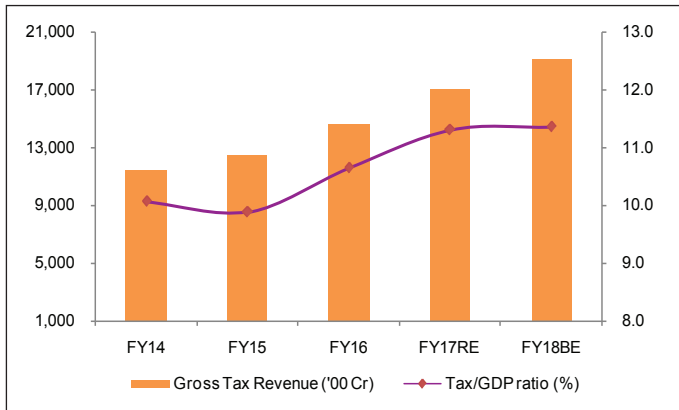
Source: India Budget, Sharekhan Research

Budget expenditure



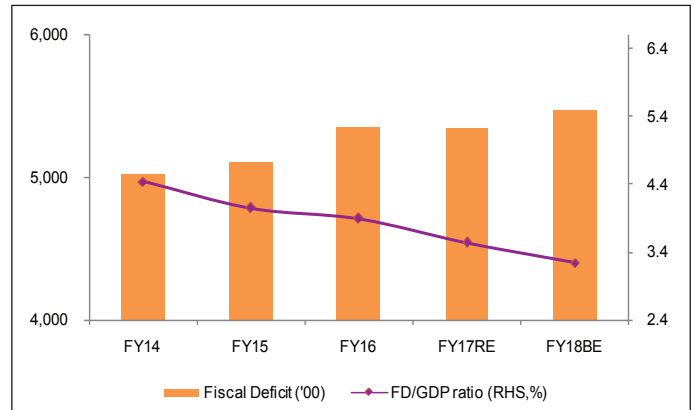
Source: India Budget, Sharekhan Research

Gross tax revenue and Tax as % of GDP



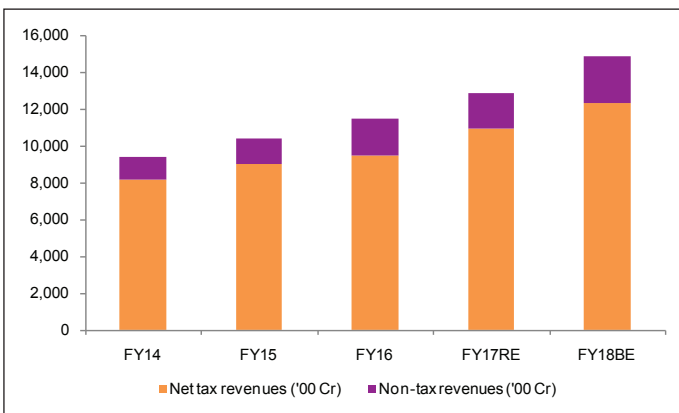
Source: India Budget, Sharekhan Research

Fiscal deficit movement and FD as % to GDP



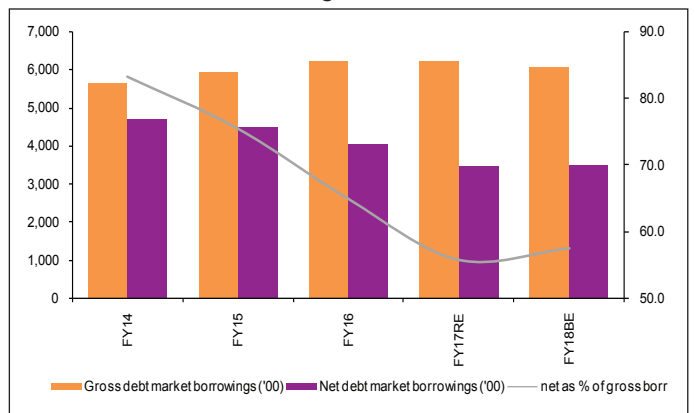
Source: India Budget, Sharekhan Research

Tax and Non-tax revenue movement



Source: India Budget, Sharekhan Research

Gross and Net market borrowings



Source: India Budget, Sharekhan Research

Hits & Misses (Sectors/Companies)

Hits:

- **Infrastructure/Roadways/Railways:** Total allocation for infrastructure development in FY2018 Union Budget is up by 14% to Rs3,96,135 crore. In the road sector, the allocation for highways has been increased from Rs57,976 crore to Rs64,900 crore, up 12%. 2,000 kms of coastal connectivity roads have been identified for construction and development. For Railways, the allocation is at Rs131,000 crore vs Rs121,000 crore, while the gross budgetary support has been enhanced to Rs55,000 crore vs Rs45,000 crore.
- **Companies in focus:** IRB Infrastructure, ITNL, L&T, Ashoka Buildcon, Gayatri Projects, Sadbhav Engineering, DLF, Ashiana Housing, KNR Construction, UltraTech Cement, The Ramco Cements among others.
- **Affordable Housing:** The Union Budget has proposed to assign infrastructure status to the Affordable Housing projects, which is aligned with the government's aim to provide "housing to all" by 2022. The infrastructure status to the Affordable Housing space will provide quicker access to capital at lower cost. Further, the Service Tax on services with respect to Affordable Housing is proposed at Nil as against 5.6% currently. The proposed positive changes for Affordable Housing and overall for the entire Real Estate sector will have a positive multiplier effect on many other sectors like Cement, Metals, Housing Finance, Paints, Tiles & Ceramics and Sanitary Ware, among others.
- **Companies in focus:** DLF, Ashiana Housing, Godrej Properties, Century Plyboards, Kajaria Ceramics, Cera Sanitaryware, Somany Ceramics, The Ramco Cements, Asian Paints, Kansai Nerolac, Repco Home Finance, Gruh Finance and PNB Housing Finance, among others.
- **Rural focus and Consumption:** With focus on improving rural sentiments, the government has increased allocation for various schemes such as MNREGA, Irrigation Funds and other schemes. Total allocation of Rs187,223 crore for Rural & Allied sector is up by 24% in comparison to last year. Rural roads to be built under PMGSY have been increased to 133 km per day from 73 km per day (average). In this scheme, the total allocation is Rs27,000 crore. The Budget also lays emphasis on irrigation development through the Dedicated Micro Irrigation Fund of Rs5,000 crore in NABARD. Further, open defecation free villages are now being given priority for piped water supply.
- **Companies in focus:** HUL, Dabur, Emami, Godrej Consumer Products, Jyothy Laboratories and Britannia etc, Two Wheelers (Hero MotoCorp/Bajaj Auto), M&M, Supreme Industries, Astral Poly, Dhanuka Agritech, Insecticides India, among others
- **Ease of doing business:** The Union Budget FY2018 has laid a strong foundation for ease of doing business in India, with more pro-business measures. Several steps have been proposed to provide enterprises (both domestic as well as global) to make doing business in India easier. (1) FIPB to be abolished and new FDI policy is under consideration to boost FDI; (2) Scope of domestic transfer pricing only if one of the entities involved in related party transaction enjoys specified profit-linked deduction. This will reduce the compliance burden for domestic companies; (3) Lower tax for MSMEs; (4) Foreign Portfolio Investors (FPI) Category I & II have been exempted from indirect transfer provision; (5) Time for completion of scrutiny assessments is being compressed further from 21 months to 18 months for the Assessment Year 2018-2019 and further to 12 months for the Assessment Year 2019-2020; (6) The threshold for the maintenance of books for individuals and HUF is proposed to be increased from the turnover of Rs10 lakh to Rs25 lakh or income from Rs1.2 lakh to Rs2.5 lakh.

Misses:

- **No cut in corporate tax:** Among the many positive proposals, the Budget has fallen short on one of the key expectations that India Inc had - a cut in the Corporate Tax. Though the government has cut the tax for smaller companies to 25%, there is no relief for the bigger corporates.
- **Proposal to ban cash transactions over Rs3 lakh:** The proposal to ban cash transactions over Rs3 lakhs is positive for curbing black money, besides improving the formal banking and digital economy - thereby providing further strength to the organised players. However, this move will impact sectors such as Branded Jewellery and Luxury Housing among other luxury transactions.
- **Bank recapitalisation:** The Budget has disappointed on the bank recapitalisation front. The Rs10,000 crore allocated is less than last year's allocation of around Rs25,000 crore.

ITC - Effect of excise duty hike of 6% on cigarettes

- In the Union Budget for FY2017-2018, the government has announced an average excise duty hike of 6% on cigarettes, which is less than our as well as street expectation of 8-10% increase.
- For ITC, the weighted average excise duty hike stands at 6%. We expect ITC to pass on the excise duty hike through an average price increase of 6-8% in its cigarette portfolio in the coming months (ITC had recently increased prices of some brands).
- With the second consecutive year of moderate hike in the excise duty on cigarettes, we expect ITC's cigarette volume to grow by 6-7% in FY2018 (the previous volume growth expectation was 5%). This would result in a 2-3% increase in the earnings estimate for FY2018, while we broadly maintain our earnings estimate for FY2019. But, any significant increase in the tax rate on cigarettes under the impending GST regime (likely implementation in July 2017) would act as a key risk to our volume growth estimates for ITC.
- The second consecutive year of moderate excise duty hike on cigarettes is positive for ITC, as its cigarette volume is likely to improve and would further have a positive impact on the company's cash flows in the near term. Any significant increase in the tax rate on cigarettes under the GST dispensation will remain a key monitorable in the coming quarters. The ITC stock is currently trading at 25.5x and 22.3x its FY2018E and FY2019E earnings. We maintain our 'Buy' recommendation on the stock.

Excise duty hike on cigarettes in the Union Budget 2017-18

Union Budget 2017-18

Size	Items	Rs per 1000 cigarettes		Chg (%)	Weighted average excise duty hike for ITC
		2016-17	2017-18		
Small	Cigarettes filter > 60 =<65 mm	1,582.5	1,678.5	6.1	
Regulars	Cigarettes filter > 65 =<70 mm	2,087.5	2,213.5	6.0	
Longs	Cigarettes filter > 70 =<75 mm	2,847.5	3,018.5	6.0	
Kings	Cigarettes filter > 75 =<85 mm	4,163.5	4,414.5	6.0	
	Cigarettes filter > 85 mm	4,163.5	4,414.5	6.0	6.0%

Source: India Budget, Sharekhan Research

Sectoral analysis

Sector	Key announcements	Overall impact	Key companies to be affected
Budget impact: Neutral			
Sector view: Positive (preferred picks: Maruti Suzuki India, TVS Motor and Exide Industries)			
Automobiles	Total allocation of funds for Rural and Agricultural & Allied sectors has increased by 24% to Rs1,87,223 crore.	Positive	Increased rural sector allocation would boost rural income, which in turn would have a positive rub-off on rural-focused companies such as Hero MotoCorp Mahindra & Mahindra and Escorts.
	Allocation for Highways increased to Rs64,900 crore from Rs57,976 crore.	Positive	This will result in better road connectivity, which in turn will boost the Commercial Vehicle (CV) sales. Positive for Ashok Leyland, Tata Motors and Eicher Motors.
Budget impact: Positive			
Sector view: Positive (preferred picks: UPL, PI Industries and Insecticides India)			
Agri - Inputs	Total allocation for Rural and Agricultural & Allied sectors for FY2018 has increased by 24% to Rs1,87,223 crore (with committed efforts of doubling the income of farmers in five years).	Positive	UPL, Dhanuka Agri, PI Industries and Insecticides India
	Emphasis on irrigation through a Dedicated Micro Irrigation Fund of Rs5,000 crore in NABARD.	Positive	Jain Irrigation and EPC Industrie.
	The customs duty on imported Liquefied Natural Gas (LNG), which is one of the key inputs for fertiliser manufacturing cut from 5% to 2.5%.	Positive	Chambal Fertilisers, GSFC, RCF and NFL.
Budget impact: Budget impact: Positive for gas utilities and downstream companies; negative for upstream PSUs			
Sector view: Positive (preferred picks: RIL, IOCL and Petronet LNG)			
Oil & Gas	Customs duty on LNG imports reduced to 2.5% from 5% currently.	Positive	Petronet LNG, IGL, Gujarat Gas and GAIL.
	No customs duty on crude oil imports.	Positive	IOCL, BPCL, HPCL, RIL, MRPL and Chennai Petroleum.
	No reduction in cess rate on oil.	Negative	ONGC, Oil India and Cairn India.
	Fuel subsidy provision at Rs25,000 crore (LPG - Rs16,076 crore and Kerosene - Rs8,924 crore) for FY2018 factors in crude oil price of \$55/bbl, assuming a price hike per month of Rs0.5/litre on Kerosene and Rs2/cylinder on LPG till April 2017.	Neutral	ONGC and Oil India.
	Creation of an integrated public sector oil major.	Positive (given the synergies but implementation seems difficult)	ONGC, Oil India, IOCL, BPCL and HPCL.
	Set up facilities for Strategic Crude Oil Reserves at Chandikhole in Odisha and Bikaner in Rajasthan.		

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Sectoral analysis

Sector	Key announcements	Overall impact	Key companies to be affected
Budget impact: Positive			
Sector view: Positive (preferred picks: IRB Infrastructure, IL&FS Transportation, L&T, Gayatri Projects and Ashoka Buildcon)			
Infrastructure	Increased total allocation for infrastructure development in FY2018 to Rs3,96,135 crore from Rs3,48,952 crore in BE FY2017.	Positive	IRB Infrastructure, ITNL, L&T, Ashoka Buildcon, Gayatri Projects, Sadbhav Engineering and KNR Construction among others.
	In the road sector, budget allocation for highways has increased from Rs57,976 crore in BE FY2017 to Rs64,900 crore in FY2018. 2,000 kms of coastal connectivity roads have been identified for construction and development.	Positive	IRB Infrastructure, ITNL, L&T, Ashoka Buildcon, Gayatri Projects, Sadbhav Engineering and KNR Construction among others.
	MAT/AMT credit is allowed to be carried forward up to a period of 15 years instead of 10 years at present. To take effect from April 1, 2018 onwards.	Positive	IRB Infrastructure, ITNL, L&T, Ashoka Buildcon, Gayatri Projects, Sadbhav Engineering and KNR Construction among others.
	A new Metro Rail Policy and act with greater private sector participation.	Positive	L&T and J Kumar Infraprojects.
	Select airports in Tier 2 cities will be taken up for operation and maintenance in the PPP mode.	Positive	GMR Infrastructure and GVK Infraprojects.
	An amendment bill as part of the Arbitration and Conciliation Act 1996 will be introduced to streamline institutional arrangements for resolution of disputes in infrastructure related construction contracts, PPP and public utility contracts.	Positive	IRB Infrastructure, ITNL, L&T, Ashoka Buildcon, Gayatri Projects, Sadbhav Engineering and KNR Construction among others.
	Land monetisation and railway station redevelopment - Amendment to the Airport Authority of India Act to enable effective monetisation of land assets. The resources so raised will be utilised for airport upgradation. However, 25 railway stations are expected to be awarded for redevelopment during FY2018.	Positive	NBCC.
Budget impact: Positive			
Sector view: Neutral			
Real Estate	Affordable housing to be given infrastructure status.	Positive	DLF, Ashiana Housing, Godrej Properties, Century Plyboards, Kajaria Ceramics, Cera Sanitaryware and Somany Ceramics.
	Under the scheme for profit-linked income tax deduction for affordable housing, carpet area instead of built up area of 30 sq mtr and 60 sq mtr will be counted. 30 sq mtr to apply only in case of municipal limits of 4 metro cities and for the rest it will be 60 sq mt. To take effect from April 1, 2018 onwards.	Positive	DLF, Ashiana Housing and Godrej Properties.
	Reduction in the holding period for computing long-term capital gains for transfer of immovable property from 3 years to 2 years. Also, the base year for indexation is proposed to be shifted from April 1, 1981 to April 1, 2001 for all classes of assets, including immovable property. To take effect from April 1, 2018 onwards.	Neutral	DLF, Ashiana Housing and Godrej Properties.
	To reduce the period of holding from the existing 36 months to 24 months in case of immovable property, being land or building or both, to qualify as long term capital asset. To take effect from April 1, 2018 onwards.	Positive	DLF, Ashiana Housing and Godrej Properties.

Sectoral analysis

Sector	Key announcements	Overall impact	Key companies to be affected
Real Estate	The capital gains tax to the owner shall be chargeable to the income-tax as income of the previous year, whereby the CC is issued as against the year in which the possession of immovable property is handed over to the developer for development of a project. To take effect from April 1, 2018 onwards. In case any monetary consideration is payable under the specified agreement, tax at the rate of 10% shall be deductible from such payment. This amendment will take effect from April 1, 2017.	Positive	Godrej Properties and Asiana Housing.
	Tax on notional rental income for constructed buildings will apply only one year of the end of the year in which completion certificate is received. To take effect from April 1, 2018.	Positive	DLF and Godrej Properties.
	The National Housing Bank will refinance individual housing loans of about Rs20,000 crore in FY2018.	Positive	DLF, Ashiana Housing and Godrej Properties.
	Allocation for the Pradhan Mantri Awaas Yojana - Gramin increased from Rs15,000 crore in BE FY2017 to Rs23,000 crore in FY2018 with a target to complete 1 crore houses by 2019 for the homeless and those living in kutcha houses.	Positive	DLF, Ashiana Housing and Godrej Properties.
Budget impact: Neutral Sector view: Neutral			
Logistics	A specific programme for the development of multi-modal logistics parks, together with multi modal transport facilities, will be drawn up and implemented.	Positive	Container Corporation of India, Gateway Distriparks and Allcargo Logistics.
Budget impact: Positive Sector view: Positive (preferred picks UltraTech and The Ramco Cements)			
Cement & Cement Products	Increased allocation in Infrastructure and sops for Affordable Housing.	Positive	UltraTech, Shree Cement and The Ramco Cements.
	Increased allocation for Rural and Agriculture & Allied sectors at Rs187,223 crore.	Positive	UltraTech, Shree Cement and The Ramco Cements.
Budget impact: Positive Sector view: Selective (preferred picks: HUL, ITC, Emami, GCPL & Jyothy Laboratories)			
Consumer Goods & Discretionary	Focus on rural development: with focus on improving rural infrastructure, the government has increased allocation on various schemes such MNREGA, besides aiming for a smooth flow of agriculture credit and funding under various irrigation schemes.	Positive	Increase in allocation under various schemes for rural development is positive for FMCG companies such as HUL, ITC, Emami, Godrej Consumer Products (GCPL) and Jyothy Laboratories etc.
	Relief to salaried individuals: The existing rate of taxation for individual assesses falling under the income slab of Rs2.5 lakh to Rs5 lakh reduced to 5% from the present rate of 10%.	Positive	This will be beneficial for FMCG and Consumer Discretionary sectors (including Apparels and Travel & Tourism), as this will lead to more money in the hands of individuals to spend. Positive for Kewal Kiran Clothing, Relaxo Footwears, Thomas Cook India and Wonderla Holidays etc.
	Increase in basic customs duty on cashew nuts (roasted, salted or roasted & salted) from 30% to 45%	Negative	Marginally negative for companies such as Britannia, ITC (food business) and others.

Sectoral analysis

Sector	Key announcements	Overall impact	Key companies to be affected
Consumer Goods & Discretionary	No increase in Service Tax (kept unchanged at 15%)	Positive	Expectation was for an increase in the Service Tax by 200BPS in view of GST implementation. No increase in the Service Tax is positive for consumer service companies such as Wonderla Holidays, Thomas Cook India, Cox & Kings, Jubilant Foodworks and Speciality Restaurants.
Budget impact: Positive Sector view: Positive (preferred picks: SBI, Bank of Baroda, PNB, Repco Home Finance and Gruh Finance)			
Banks	Target for agricultural credit in FY2018 raised to Rs10 lakh crore (from Rs9 lakh crore in FY2017).	Neutral	Mainly PSU Banks.
PSU Banks	Rs10,000 crore for recapitalisation of banks provided in FY2018.	Neutral	In line with already announced Indradhanush Plan to recapitalise PSU Banks. Promise of additional funds to be made available (if required) is also reiteration of earlier plan.
Banks	Increased allowable provision for Non-Performing Assets from 7.5% to 8.5%.	Positive	Will reduce tax liability of banks; benefit to Axis Bank, ICICI Bank, SBI, BOB, PNB etc.
Banking & NBFC	Affordable housing to be given infrastructure status.	Positive	Banks and HFCs like Repco Home Finance, Gruh Finance, LIC Housing, PNB Housing etc. with low average ticket size loans; will have lower risk weights; refinance from NHB.
Banking & NBFC	Bill to curtail the menace of illicit deposit schemes will be introduced.	Positive	Will result in deposits (low cost) accretion for Banks and NBFCs.
Budget impact: Positive Sector view: Positive (preferred picks: L&T, Finolex Cables, V-Guard, Kalpataru Power and Skipper)			
Capital Goods / Power	Electrification - With commitment to achieve 100% village electrification by May 2018, the government has increased allocation by Rs4,814 crore for the Deendayal Upadhyaya Gram Jyoti Yojna.	Positive	L&T, Kalpataru Power & Transmission, KEC International and Skipper.
	Water - To provide safe drinking water to over 28,000 arsenic and fluoride affected habitations in the next 4 years through the National Rural Drinking Water Programme (NRDWP). Allocation for the National Ganga Plan "Namami Gange" stands at Rs2,250 crore.	Positive	Va Tech Wabag, ITD Cementation and Ion Exchange.
	Optic Fibre Cables - Allocation to the Bharatnet project increased to Rs10,000 crore from Rs6,000 crore, which will provide high-speed broadband connectivity to Gram Panchayats with WiFi Hot Spots and access to digital services at low tariffs.	Positive	Sterlite Technology and Finolex Cables.
	Defence - Defence expenditure (excluding pension payout) has been provided a sum of Rs2,74,114 crore, including Rs86,488 crore for defence capital.	Positive	L&T, BEML and Reliance Defence.

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Sectoral analysis

Sector	Key announcements	Overall impact	Key companies to be affected
Capital Goods / Power	Solar - Proposal for the second phase of Solar Park development for an additional 20,000 MW capacity and developing of 7,000 railway stations with solar power in the medium term. Reduction of BCD for fuel cell based power generating systems from 6% to 5%.	Positive	Ujjas Energy and Indosolar.
	LED - Basic customs duty & Countervailing duty on all parts for use in the manufacture of LED lights or fixtures, including LED lamps, reduced to 5% & 6%, respectively.	Positive	Crompton Greaves Consumer, Havells, Finolex Cables and Bajaj Electricals.
Railway	Infra spending on railways - huge capital and development expenditure for Railways at Rs131,000 crore, of which Rs55,000 crore provided by the government.	Positive	ABB, KEC International, Kalpataru power & Transmission, Siemens, BEML.
	Metro Rail Policy - A new Metro Rail Policy will be announced, with focus on innovative models of implementation and financing. This will facilitate greater private participation and investment in construction and operation with increased budgetary allocation to Rs18,000 crore.	Positive	ABB, KEC International, Kalpataru Power & Transmission, Siemens and J Kumar Infra.

Source: India Budget, Sharekhan Research

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